

Message Text

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ACTION AF-06

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FM AMEMBASSY NOUAKCHOTT

TO SECSTATE WASHDC 3455

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: EIND EINV EMIN MR

SUBJECT: MAURITANIA TAKES OVER SOMIMA COPPER MINING COMPANY

REF: NOUAKCHOTT 1819 OF 1974

SUMMARY: MAURITANIA TOOK COMPLETE CONTROL FEBRUARY 25 OF SOCIETE MINIERE DE MAURITANIE (SOMIMA), COUNTRY'S SECOND LARGEST INDUSTRIAL ENTERPRISE AFTER MIFERMA IRON MINING COMPLEX. GIRM AND STOCKHOLDERS AGREED, APPARENTLY AMICABLY, ON ARRANGEMENT FOR PAYING OFF DEBTS OF DEFICIT-RIDDEN COPPER MINING COMPANY. TWO AMERICAN BANKING INSTITUTIONS HAD MINOR INVESTMENT IN SOMIMA. GIRM IS INSISTENT THAT ACTION CONSTITUTES "ACQUISITION" RATHER THAN NATIONALIZATION. COMING ON HEELS, HOWEVER, OF MIFERMA NATIONALIZATION AND PROVISIONAL GOVERNMENT CONTROL OF MAURITANIA'S LARGEST BANK, ACTION DOES NOT BODE WELL FOR FUTURE OF FOREIGN INVESTMENT IN COUNTRY. END SUMMARY

1. SOMIMA IS NUMBER TWO INDUSTRIAL ENTERPRISE IN MAURITANIA, SECOND ONLY TO RECENTLY NATIONALIZED MIFERMA
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IRON MINING COMPLEX. SOMINA IS NOW PRODUCING 3,400 TONS OF

COPPER PER MONTH AND EMPLOYS 900 PERSONS AT ITS AKJOUJT LOCATION. ON FEBRUARY 25, MAURITANIAN MINISTER OF PLAN AND INDUSTRIAL DEVELOPMENT, SIDI OULD CHEIKH ABDALLAHI, AND REPRESENTATIVES OF SOMIMA STOCKHOLDERS SIGNED AGREEMENT TRANSFERRING ALL SHARES TO GIRM. THIS MEANS IN EFFECT, CONTROL OF COMPANY WILL BE HELD BY SOCIETE NATIONALE INDUSTRIELLE ET MINIERE (SNIM), GOVERNMENT'S EXPANDING INDUSTRIAL HOLDING COMPANY.

2. UNTIL RECENT TAKEOVER, SOMIMA WAS 44.6 PERCENT OWNED BY CHARTER CONSOLIDATED LTD., AN AFFILIATE OF ANGLO-AMERICAN CORPORATION. MAURITANIAN GOVERNMENT, READ SNIM, HELD 22 PERCENT. INTERNATIONAL FINANCE CORPORATION (IFC) HELD 15 PERCENT. OF ITS \$20 MILLION PARTICIPATION, IFC DISTRIBUTED \$9.5 MILLION TO FOLLOWING BANKING INSTITUTIONS.

BANK FUR GEMEINWIRTSCHAFT, KREDITBANK A. G., HANDELSFINANZ A. G., KUWAIT FOREIGN TRADING, CONTRACTING AND INVESTMENT CO., BAMERICAL INTERNATIONAL FINANCE CORPORATION (BIFC), PHILADELPHIA INTERNATIONAL INVESTMENT CORPORATION (PIIC), AND ARAB AFRICAN BANK. (BIFC AND PIIC ARE AMERICAN.) OTHER SHAREHOLDERS INCLUDED: SOCIETE MINERS ET METALLURGIQUE (6.575 PERCENT), BUREAU DE RECHERCHE GEOLOGIQUES ET MINIERES (6.125 PERCENT), BANQUE DE PARIS ET DES PAYS BAS (3.775 PERCENT), AND COMPAGNIE FINANCIERE POUR L'OUTRE-MER (1.925 PERCENT).

3. COMMUNIQUE RELEASED AFTER SIGNING OF AGREEMENT MADE FOLLOWING POINTS:

- (A) SHAREHOLDERS OF SOMIMA, MAURITANIAN GOVERNMENT, AND SNIM HAVE BEEN NEGOTIATING FOR SEVERAL WEEKS IN EFFORT TO FIND SOLUTION TO DIFFICULTIES ENCOUNTERED BY SOMIMA.
- (B) AGREEMENT WAS REACHED WHEREIN ALL SHARES OF SOMIMA WILL BE TRANSFERRED TO SNIM.
- (C) OPERATION OF MINES WILL CONTINUE WITH MAURITANIAN AND EXPATRIATE PERSONNEL REMAINING IN PLACE. CHARTER CONSOLIDATED WILL CONTINUE TO PROVIDE ASSISTANCE AS DETERMINED LIMITED OFFICIAL USE

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BY SNIM.

- (D) ALL PARTIES TO AGREEMENT WERE PLEASED BY ATMOSPHERE OF "MUTUAL UNDERSTANDING" WHICH PREVAILED.

4. COUNCIL OF MINISTERS MET IN EXTRAORDINARY SESSION FEBRUARY 24 UNDER CHAIRMANSHIP OF MAURITANIAN PRESIDENT OULD DADDAH, AT WHICH TIME ACCORD WAS APPROVED.

5. FOLLOWING SIGNING CEREMONY, MINISTER ABDALLAH MADE FOLLOWING KEY POINTS AT PRESS CONFERENCE:

(A) SOMIMA HAD FOR SOME TIME EXPERIENCED DIFFICULTIES WHICH HAVE RECENTLY BEEN AGGRAVATED BY FALL IN PRICE OF COPPER. STOCKHOLDERS WERE CONSIDERING CLOSURE OF MINE. THIS WOULD CREATE SOCIAL, ECONOMIC, AND POLITICAL PROBLEMS WHICH COULD NOT BE TOLERATED BY GIRM.

(B) SOMIMA HAS TWO KINDS OF DEBTS: GUARANTEED AND NON-GUARANTEED. ABOUT \$50 MILLION IN DEBTS ARE GUARANTEED BY STOCKHOLDERS. IT WAS AGREED THAT VARIOUS STOCKHOLDERS WILL BE RESPONSIBLE FOR PAYING DEBTS CONFORMING TO GUARANTEE THEY HAD GIVEN.

(C) GIRM HAS TAKEN RESPONSIBILITY FOR UP TO \$20 MILLION IN NON-GUARANTEED DEBTS, OF WHICH ABOUT \$9 MILLION ARE OWED TO CLIENTS, SUPPLIERS, AND MAURITANIAN BANKS; \$5.9 MILLION TO INTERNATIONAL FINANCE CORPORATION; AND \$2.6 MILLION BEING 50 PERCENT OF LOANS MADE BY BANQUE DE PARIS ET PAYS BAS AND CREDIT LYONNAIS.

(D) TRANSFER OF SOMIMA TO SNIM WILL TAKE LEGAL EFFECT BEGINNING THIS APRIL. TRANSFER WILL BE COMPLETE AND

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FORMER STOCKHOLDERS, EXCEPT FOR SNIM, WILL NO LONGER HAVE ANY FINANCIAL INVOLVEMENT IN COMPANY.

(E) MINISTER SAID THAT, STRICTLY SPEAKING, TAKEOVER OF SOMIMA IS NOT NATIONALIZATION, "BUT AN AGREEMENT RESULTING FROM DIFFICULTIES ENCOUNTERED BY SOMIMA" AND IN CONSIDERATION OF GIRM WILLINGNESS TO ASSURE CONTINUATION OF THIS MINING ACTIVITY.

(F) DISCUSSING FUTURE OF DEBT-RIDDEN COMPANY, MINISTER RECALLED MINE HAS TWO LAYERS OF COPPER; OXIDE COPPER IS LOCATED ON TOP AND SULFUR COPPER IS FOUND UNDERNEATH. MINING PROCESS CALLED "TORCO" WAS SPECIALLY DEVELOPED FOR EXPLOITING OXIDE COPPER AT AKJOUT. IT WILL TAKE ANOTHER THREE YEARS TO COMPLETE EXPLOITATION OF OXIDE COPPER, AFTER WHICH SULFUR COPPER CAN BE MINED AT LOWER COST FOLLOWING INITIAL LARGE INVESTMENT.

(G) GIRM HAS NOT TAKEN DOCTRINAL POSITION ON EVENTUAL PARITICIPATION OF FOREIGN CAPITAL IN COMPANY. MINISTER ADDED, HOWEVER, THAT GIRM WOULD PROBABLY NOT ACCEPT

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OUTSIDE MAJORITY PARTICIPATION. HE CONCLUDED THAT GOVERNMENT DOES NOT FORSEE REDUCTION IN EXPLOITATION OF COPPER IN MAURITANIA.

6. KEY OFFICIAL WITH SNIM COMMENTED PRIVATELY TO EMBASSY THAT SNIM HAS INHERITED REAL PROBLEM. SNIM DOES NOT HAVE MONEY TO PAY SOME \$20 MILLION IN DEBTS. QUESTION OF COMPENSATION TO STOCKHOLDERS FOR ORIGINAL INVESTMENT IS STILL UNCLEAR. SNIM SOURCE SUGGESTED THAT AS RESULT OF DEBT SITUATION AND CONSEQUENT AGREEMENT ON PAYING DEBTS, GIRM AND STOCKHOLDERS HAVE SIMPLY AGREED TO CALL EVERYTHING EQUAL. SNIM IS NOW TRYING TO LOCATE FINANCING FOR PAYING OFF ITS PORTION OF DEBTS AND FOR OPERATING A COMPANY WHICH HAS BEEN LOSING \$1.5 MILLION PER MONTH SINCE LAST OCTOBER. COMPANY WILL CONTINUE TO LOSE MONEY FOR LONG TIME. SNIM OFFICIAL REPORTS THAT FINANCING WILL PROBABLY BE LNETED IN ARAB COUNTRIES. AT SAME TIME, EMBASSY HAS LEARNED THAT SNIM REQUESTED AND OBTAINED ON FEBRUARY 26 LOAN OF MORE THAN \$1 MILLION FROM LOCAL BANQUE ARABE-AFRICAINE EN MAURITANIE. THIS SUM WILL BE USED TO ASSURE OPERATION OF SOMIMA OVER SHORT TERM.

7. SNIM OFFICIAL NOTED THAT EVEN IF CHARTER CONSOLIDATED, SINGLE LARGEST STOCKHOLDER, RECEIVES NO

COMPENSATION AND PICKS UP TAB FOR MAJORITY OF DEBTS, IT WILL COME OUT AHEAD ON ITS SOMIMA INVESTMENT. CHARTER USED SOMIMA TO TRY OUT AND DEVELOP ITS TORCO PROCESS FOR EXPLOITING OXIDE COPPER ORES. IN SPITE OF FACT THAT SOMIMA FAILED TO MAKE PROFIT, TORCO PROCESS HAS PROVED TO BE SUCCESSFUL. CHARTER HAS INTERNATIONAL PATENT ON TORCO PROCESS AND IS NOW EXPECTED TO SELL RIGHTS TO PROCESS FOR USE IN LARGER COPPER MINING OPERATIONS WHERE IT CAN BE USED PROFITABLY. COMMENT: ALTHOUGH CHARTER MAY HAVE COME OUT AHEAD, OTHER INVESTORS IN SOMIMA HAVE NOTHING BUT STRING OF DEBTS TO SHOW FOR THEIR INVESTMENT. END COMMENT.

8. SNIM SOURCE EXPLAINED AT SOME LENGTH THIS ACTION DOES NOT CONSTITUTE NATIONALIZATION. HE SAID STOCKHOLDERS CAME TO GIRM AND REQUESTED THAT MINING OF OXIDE ORES TERMINATE BECAUSE IT IS IMPOSSIBLE TO TURN LIMITED OFFICIAL USE

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PROFIT. STOCKHOLDERS WANTED TO BEGIN IMMEDIATELY MINING OF SULFUR ORES. GIRM, HOLDING TO ORIGINAL CONTRACT, REFUSED. STOCKHOLDERS SUGGESTED COMPANY GO INTO BANKRUPTCY. GIRM SAID THIS IS NOT SATISFACTORY SOLUTION. STOCKHOLDERS THEN PROPOSED TO SELL COMPANY TO GIRM, WHICH ACCEPTED IDEA. SNIM OFFICIAL ARGUES, THEREFORE, THAT CONSENT OF OTHER PARTIES WAS REQUESTED AND ACQUISITION TOOK PLACE BY NEGOTIATED AGREEMENT. IN LEGAL SENSE, THEREFORE, COMPANY WAS NOT NATIONALIZED.

9. COPPER IS CURRENTLY SELLING FOR ABOUT 55 CENTS A POUND. BREAK-EVEN POINT FOR MINING OF MAURITANIAN OXIDE ORE IS BETWEEN 70 AND 80 CENTS A POUND. SNIM IS HOPEFUL THAT (A) IT CAN CUT OPERATING COSTS AT SOMIMA AND (B) PRICE OF COPPER WILL RISE, THUS PERMITTING COMPANY TO MAKE PROFIT. SNIM OFFICIAL SAYS SOMIMA HAS BEEN MANAGED POORLY, USING EXCESSIVE OVERHEAD. COST OF EXTRACTING POUND OF COPPER AT AKJOUJT HAS BEEN MUCH HIGHER THAN IT SHOULD BE.

10. COMMENT: COMING ON HEELS OF MIFERMAN NATIONALIZATION (NOUAKCHOTT 1857), AND TROUBLES AT MAJOR BANQUE INTERNATIONALE POUR LA MAURITANIE (NOUAKCHOTT 322), GOVERNMENT ACQUISITION OF SOMIMA DOES NOT BODE WELL FOR FUTURE OF FOREIGN INVESTMENT IN MAURITANIA. ALTHOUGH WE DO NOT BELIEVE FURTHER "ACQUISITIONS" OR NATIONALIZATIONS ARE IMMINENT, TREND SEEMS TO BE IN THIS DIRECTION. WE WILL NOT BE SURPRISED TO SEE SIMILAR DEVELOPMENTS IN NEXT YEAR OR TWO. SHINN

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